



July 30, 2004

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Re: Withdrawal of Proposed Amendments to Community Reinvestment Act

Dear Sir or Madam:

As a community banker, I am extremely concerned that the community banking industry is slowing being crushed under the cumulative weight of regulatory burden. This must be addressed by Congress and the regulatory agencies before it is too late. In recent month there has been much conversation about raising the small bank threshold for CRA purposes to \$500 million, and some bankers and agencies had even mentioned raising it to \$1 billion. Most community bankers whole heartedly approved of the increase because of the extremely costly burden the reporting requirements place on small community banks. And now, the Federal Reserve Bank is proposing to withdraw the recommendation to amend CRA. This is a grave mistake!

In the Federal Reserve Bank of Dallas's Notice 04-47 it states in part that "*. . . the proposal's cost in the form of a potential reduction in community development capital in a significant number of rural communities is also uncertain, but potentially large in at least some communities.*" Okay, instead of withdrawing the proposed threshold increase, let's do raise it as proposed, **and** let's also change the regulation to allow the community development capital to go along with the increase. What is there to say that these rural communities should be further penalized by not allowing them access to the capital just because the reporting threshold is raised!

Banks (both large and small) have been examined under the current CRA regulations since July 1995, so by now some **seven years later**, the regulators should have ample information about the performance of all banks under the current regulations. How possibly could the threshold increase so negatively impact the

“potential reduction in community development capital” simply due to the proposed change? So I will ask you, **why can't the regulation be changed to cover the increased threshold while not removing the availability of the community development funds?**

To quote from the May 12, 2004, statement from John M. Reich, Vice Chairman of the FDIC:

“Community banks play a vital role in the economic wellbeing of countless individuals, neighborhoods, businesses and organizations throughout our country, often serving as the lifeblood of their communities.”

“Data from June 2003 show that the overwhelming share of commercial loans at small community banks were made to small businesses. In addition, the data indicate that commercial banks with assets between \$100 million and \$1 billion account for a large share of the small business and farm loans.”

So, if small banks don't have to track and report these loans under the current rules, how is this information available? It's available because most small (and large) banks can track these loans internally by some easy coding method, without having to do excessive record keeping, financial information tracking, etc. And if this is the case, why subject the small banks to the excessive reporting and tracking under the large bank definition, when we can provide you with small business and farm loan information at the time you do an exam? It is far easier to code the loans once when they're booked and only have to look up a small amount of additional information for specific loans or customers at the time of an exam, then be subjected to excessive record keeping, tracking and reporting, year after year after year when we are only examined once every 3 or 4 years!

Further along in his speech, Mr., Reich discussed that *“While banks under \$100 million had the highest yield on earning assets, they also had the lowest non-interest income, and the highest non-interest expense to asset ratio. These numbers make it clear that community banks, while healthy in terms of their supervisory ratings, are operating at a lower level of profitability than the largest banks in the country. At least part of this disparity in earnings stems from the disproportionate impact that regulations and other fixed non-interest costs have on community banks.”*

A chart of these findings was present at his speech, which I don't have access to. However, if the vice chairman of the FDIC has access to numbers that show these findings, I find it interesting that the Federal Reserve's Notice states: *“While community banks strongly favor raising the threshold, it is uncertain that the cost savings to the average community bank of being “small” rather than “large” under the proposal would be significant.”*

And finally: *“In some cases, the cost of complying with that burden (the never ending avalanche of regulations) is pushing some smaller banks out of the market.”* One bank CEO said that his directors are concerned over their slipping return on assets and are beginning to ask how much longer the bank can afford to remain independent without giving consideration to shareholder value through a merger or sale!

Conclusion

The reporting and tracking requirements of becoming a “large” bank versus a “small” bank are very much out of proportion in relation to the benefit to the “small” banks. The major purpose served by the large bank reporting is to make the examiner's jobs easier when they perform an exam. Even though we are a small bank, at our last exam I was asked to provide the examiners with some income information for the customers they had selected to review. When I questioned the fact that we really didn't have to give them that information (ahead of their physical on-site exam), I was told *“it would make their jobs easier and reduce the time spent looking at the files during the exam.”* **It was very apparent to me that I could look up the records on 15 or 20 loans quite easily in relation to the time and cost it will ultimately take to track and report the required financial information on all small business and farm loans, which will be required if we are classified as a “large” bank.**

The decision to increase the threshold for “small” banks should be made by **a unanimous decision of all the agencies**, and if they cannot reach a decision, then the decision should be taken out of their hands and be done by another means, including legislative action if necessary. Thank you in advance for letting me share my thoughts with you on this topic.

Sincerely yours,

Karen A. Schoenbucher

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Vice President & Compliance Officer

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